Synenco Energy Inc.

CHALLENGE. INNOVATE. DELIVER.

2005 ANNUAL REPORT

corporate overview

Synenco Energy Inc. was incorporated in 1999 to acquire and develop oil sands resources in the Athabasca region of northern Alberta. Since its inception, Synenco has advanced steadily toward its goal of developing oil sands mining, bitumen extraction and upgrading facilities, together called the Northern Lights Project. The independent best estimate of the Northern Lights Project's resources is 1.49 billion barrels of in-place bitumen.

In May 2005, Synenco created the Northern Lights Partnership (NLP) with SinoCanada Petroleum Corporation, the Canadian subsidiary of China-based Sinopec. Synenco holds a 60% interest in and is the managing partner of NLP.

NLP's oil sands leases cover an area of approximately 186 square kilometres northeast of Fort McMurray, Alberta while land in Sturgeon County near Edmonton, Alberta will be the site of the Northern Lights Project's upgrader complex. NLP also holds extensive coal lease applications covering approximately 559 square kilometres in the Athabasca region. The coal lease applications are being evaluated, but NLP does not have any current plans for coal development.

The current cost estimate for the Northern Lights Project in 2005 dollars is $5.3 billion. When fully operational, the Northern Lights Project is expected to produce 100,000 barrels per day of light sweet synthetic crude oil, with first production beginning in late 2010.

In addition to assets held in NLP, Synenco also holds on its own behalf an oil sands lease that covers approximately 92 square kilometres of land northeast of Fort McMurray – a strategic acquisition that expands and strengthens Synenco's asset base.

In 2005, Synenco began trading on the Toronto Stock Exchange under the symbol "SYN". Synenco is headquartered in Calgary, Alberta.

Our mission

- *Synenco is an Innovative, Responsible, Performance-driven owner and operator of energy projects.*

Our vision

- *To create a workplace where success is clearly defined and rewarded, where safety is a priority, where the industry's most innovative thinkers aspire to work, and where constant ingenuity and operational excellence are the standard;*
- *To create value for the members of the communities in which we operate by developing creative, sustainable long-term partnerships; and*
- *To consistently maximize the returns for our investors.*

at a glance

2005 Key Statistics

FINANCIAL

- Raised over $60 million in August 2005 through private placement – more than double the proceeds received from the sale of common shares since inception
- Raised over $316 million from IPO making it the largest for a TSX-listed company in 2005, and the largest by a Canadian exploration and production company in the last ten years

OPERATIONAL

- Created the Northern Lights Partnership in May 2005 with SinoCanada, of which Synenco is the managing partner and majority owner with a 60% ownership interest
- Acquired 100% of a 92 square kilometre oil sands lease northeast of Fort McMurray, Alberta

PEOPLE

- Appointed Michael Supple as CEO and promoted Todd Newton to President & COO
- Filled a number of key executive and senior management roles, added significantly to employee capacity

NORTHERN LIGHTS PARTNERSHIP LAND AND DISCOVERED RESOURCES

Total resource area	186 sq km
Total upgrader complex area	5 sq km
Coal Lease Applications	559 sq km
Central Lease	7404071015
Western Lease	7404071016
Northern Permit	7002010005
Evaluation	724 delineation wells
Bitumen Resource – Synenco's share	
Low Estimate	502 MMbbls
Best Estimate	895 MMbbls
High Estimate	1,427 MMbbls

WHOLLY-OWNED SYNENCO LAND

Total area	92 sq km
Synenco Lease	7405090633
Evaluation	drilling to start in 2006

SHARE PRICE vs. RETURN IN 2005

SYNENCO EMPLOYEE AND CONTRACTOR GROWTH IN 2005

2004|05

Winter Drilling Results

- Synenco drills 127 holes including 20 coal exploration holes. By the end of March 2005, a total of 724 resource delineation wells have been drilled.

March

$25 Million Laminar Agreement

- Following a series of credit and equity agreements with Synenco, Laminar Direct Capital L.P. invests $25 million, Synenco's largest investor transaction since its inception.

May

Northern Lights Partnership

- Synenco together with Sinopec, the world's seventh largest integrated oil & gas entity measured in terms of revenue, form the Northern Lights Partnership to further develop Synenco's resources into an integrated mining, extraction and upgrading project with design capacity of over 100,000 barrels per day of synthetic crude oil. Synenco remains operator of the Northern Lights Project and the managing partner, holding a 60% interest in the Northern Lights Partnership.

June

Board Appointments

- Synenco appoints Patrick Daniel, President and Chief Executive Officer of Enbridge Inc., and Robert Ladd, President of Laminar Direct Capital L.P., to its Board of Directors.

August

$60 Million Private Placement

- Synenco successfully raises $60 million through a private placement of common stock to finance ongoing development of the Northern Lights Project.

2005 A YEAR OF ACHIEVEMENT

September

New Synenco Lease

- Synenco acquires an oil sands lease for approximately 92 square kilometres of land northeast of Fort McMurray, Alberta. The lease represents a significant strategic acquisition of high-potential oil sands land that expands and strengthens Synenco's asset base.

October

Renewed Public Consultations

- Synenco releases an updated Public Disclosure Document for the Northern Lights Project. The release marks the beginning of stakeholder consultations in order to share information about the Northern Lights Project and elicit feedback.

November

$275 Million Initial Public Offering

- Synenco successfully closes its IPO, raising gross proceeds of over $275 million. Its common shares start trading on the Toronto Stock Exchange under the symbol "SYN".

December

Significant Executive Appointments

- Michael Supple commits to remaining with Synenco in the role of Chief Executive Officer. Todd Newton is appointed President and Chief Operating Officer. Bernard (Bert) Lang is appointed Executive Vice-President, Engineering and Design.

$41 Million Over-Allotment

- Following the November IPO, Synenco's underwriters exercise the full value of their over-allotment option, raising combined gross proceeds from the IPO to over $316 million.

Partnership Locates Upgrader in Edmonton

- Synenco, as managing partner of the Northern Lights Partnership, announces it will seek regulatory approval to build the Northern Lights upgrader complex in Sturgeon County, 40 kilometres northeast of Edmonton, Alberta.

chairman's message to shareholders

Dear Shareholders,

In looking back over Synenco's history, I believe 2005 will always be remembered as a year of significant achievement. What started in 1999 as a private venture has now evolved into a billion dollar market cap public company with the industry expertise, economic strength and strategic momentum to develop the Northern Lights Project.

Synenco's most recognizable achievements in 2005 were the formation of the Northern Lights Partnership with the Sinopec Group and our IPO. The catalyst for these important achievements was the financing transaction with Laminar. This initial capitalization event in 2005 brought $25 million to Synenco at a time of critical need and enabled a number of our other successes that followed.

We formed the Northern Lights Partnership on May 30, 2005, and it is evident we have made the right partner choice for Synenco's future. As the world's fourth largest refining company, Sinopec's competencies span the entire spectrum of refining and petrochemical complex engineering, procurement and construction. As our partner, Sinopec's deep level of technical experience, combined with their economic strength, are providing us with an important competitive advantage that is already adding to our abilities to manage costs and timelines.

The announcement of our Northern Lights Partnership attracted both national and international industry attention in 2005 – clearly demonstrating the growing global interest in Alberta's oil sands. As the demand for new secure sources of oil increases, Synenco's development to date strongly positions us as a solid investment in Canada's energy market.

"We have built a solid foundation, have a strategic alliance with a proven partner, are well capitalized, and have an excellent leadership team."

The market's confidence in Synenco also ushered in a new phase of financial growth for the company during 2005. This past August, a private placement raised $60 million for our Northern Lights Project development. This was followed in November by a successful initial public offering and over-allotment option exercise that grossed over $316 million for Synenco – the largest IPO by any company on the Toronto Stock Exchange in 2005 and the largest IPO by a Canadian exploration and production company in the last ten years.

While the Northern Lights Project remained the primary focus of both our funding initiatives and development activities during the year, 2005 also saw Synenco start to broaden its interests with the strategic acquisition of an oil sands lease for approximately 92 square kilometres of land adjacent to the Northern Lights leases. We hold 100% of this new land – what we call the Synenco Lease – and believe that it has significant upside potential in terms of recoverable bitumen.

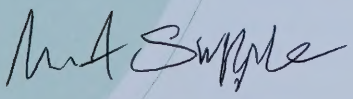
Michael Supple
Chief Executive Officer and Executive Chairman

Significant board and executive appointments over 2005 have placed Synenco in an excellent position to leverage our technical expertise and capital assets in the years ahead. Both Patrick Daniel and Robert Ladd joined our Board of Directors in June. Mr. Daniel is President and Chief Executive Officer of Enbridge Inc., one of North America's leading energy transportation, distribution and services companies. Mr. Ladd is President of Laminar Direct Capital L.P., a private investment firm and member of the D.E. Shaw group. Their respective areas of experience have been welcome additions to our corporate governance as the company grows. The Board was also extremely pleased this past year to appoint Mr. Todd Newton President and Chief Operating Officer of Synenco. Prior to the appointment, Todd was Synenco's Executive Vice President and Chief Financial Officer, a position he held since June 2004. Todd's appointment followed an extensive international search and the Board is confident that under his leadership, Synenco will continue to attract a highly qualified team and meet our goals for Northern Lights.

At the Board's request, I have accepted the position of Chief Executive Officer in addition to my duties as Executive Chairman and have committed to remaining in this position over the next two years. I will continue to protect and enhance value for our shareholders by closely monitoring the Northern Lights Project, helping to define the culture that drives our organization, and continuing to seek value-added opportunities that build on our technical and operational competitive advantages. I am enthusiastic for our future and the benefits that my 30 years of industry experience can bring.

With our achievements to date, especially this past year, Synenco is poised to move from design to development of the Northern Lights Project. We have built a solid foundation, have a strategic alliance with a proven partner, are well capitalized and have an excellent leadership team. I am confident that we are well positioned for the years ahead – and look forward to updating you on Synenco's continued progress. Thank you for your ongoing support.

On behalf of the Board of Directors,



Michael Supple
Chief Executive Officer and Executive Chairman
February 17, 2006
Calgary, Alberta

president's message to shareholders

Dear Shareholders,

When I joined Synenco in June of 2004 as Executive Vice President and Chief Financial Officer, it was because I saw great potential at this company. The Northern Lights Project provided an opportunity to bring Alberta's oil sands to market in a way that was innovative, profitable, safety conscious and environmentally responsible.

I am delighted to have taken on the role of President and Chief Operating Officer and look forward to the new challenges this position will bring as Synenco proceeds with development and operation. I am also very pleased that Mr. Michael Supple has committed to remaining with our company as Chief Executive Officer. Mike and I have worked closely together since I joined Synenco and we share a clear vision for both Northern Lights and this organization. I believe all of our shareholders will benefit from the value his continued involvement will bring.

2005 will be remembered as a year of substantive and permanent transformation for Synenco, but the focus of your management team is on the year ahead.

Our corporate objectives for 2006, set out below, are designed to focus our organization on those areas and efforts that will solidify the net asset value proposition of the Northern Lights Project as well as develop our other opportunities. The corporate objectives guide the establishment of detailed team goals, so that performance and ultimately compensation are aligned with execution against a set of established priorities.

"2005 will be remembered as a year of substantive and permanent transformation for Synenco, but the focus of your management team is on the year ahead."

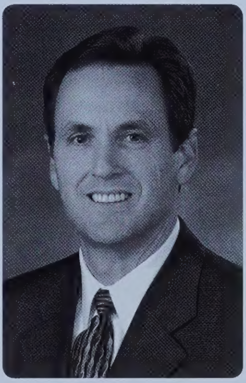
On time performance. Synenco is a schedule-driven organization and our near-term focus is on the timely completion of regulatory applications required for Northern Lights. Our target is to file both the mining and extraction application and the upgrader complex application in 2006. Similarly, advancing the Northern Lights engineering effort is a key focus in 2006. We are targeting completion of the Design Basis Memorandum stage of engineering by the end of the third quarter.

Financial performance. Synenco is a fiscally responsible operator and our focus in 2006 is to steward our expenditures tightly against our forecasts. In 2006, we estimate a total net cash expenditure of $118 million for our share of Northern Lights development costs, exploration outside of the Northern Lights Partnership and corporate development costs.

Todd Newton
President
and Chief Operating Officer

Realize the value of our partner. A key strategic advantage of Synenco is our partnership with Sinopec. Sinopec is the world's fourth largest oil refining entity. Over the past decade, it has engineered, procured and managed the addition of more new refining capacity than any other company in the world. As a responsible operator of Northern Lights, we plan to leverage our partner's deep technical expertise and capacity to add value to the Northern Lights Project.

Organizational development. Retaining the operator role creates a unique organizational build-out challenge for Synenco. We will continue our approach to building the organization "from the top down". We expect to complete our senior executive build-out in the first quarter of 2006 and continue the build-out throughout 2006. Synenco will be a dynamic, performance-based workplace where we emphasize team success through alignment, empowerment and accountability to one another. This culture will lead to continued success in recruiting some of the most skilled and innovative professionals in the industry.



Shareholder return. Synenco's total shareholder return in 2005 was in the top-quartile of its oil sands development peer group. The Company's goal is to continue to deliver strong, competitive returns to its shareholders.

The mission of Synenco is to be an innovative, responsible and performance-driven owner and operator of energy projects. Our vision is to create a workplace where success is clearly defined and rewarded, where safety is a priority, where the industry's most innovative thinkers aspire to work and where constant ingenuity and operational excellence are the standard. The outcome of this vision will be a corporation that consistently maximizes returns for our investors.

Our significant capital achievements in 2005 speak to your confidence in our capabilities and I wish to thank you for your continued support.

Todd Newton
President and Chief Operating Officer
February 17, 2006
Calgary, Alberta

corporate governance

Synenco's Board of Directors and its management team are committed to a high standard of corporate governance and believe that it is essential to the effective and efficient operation of Synenco and to enhancing shareholder value. Among other things, the Board is responsible for setting Synenco's strategic objectives, evaluating corporate risks and opportunities, approving annual budgets, monitoring performance against such budgets, appointing and overseeing executive management, promoting ethical and responsible corporate conduct, addressing succession planning, evaluating Board needs and performance and fostering a system of effective, accurate and timely public disclosure. The Board is currently comprised of seven Directors, each of whom brings a unique and valuable perspective to the Board's deliberations.

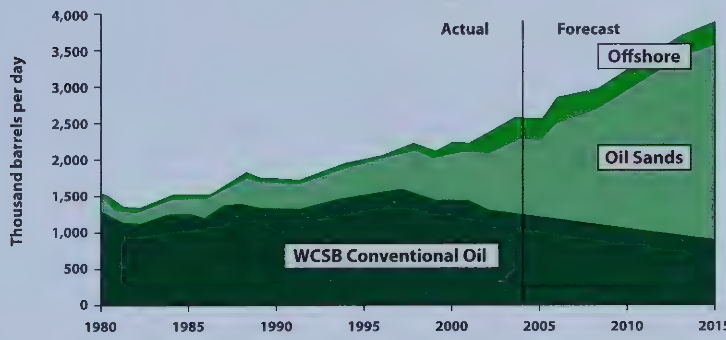
Synenco's Board of Directors and President, from left: Sherrold Moore, Dan Klemke, Patrick Daniel, Todd Newton, Michael Supple, John Cordeau, Allan Burry. Not pictured: Robert Ladd

Alberta contains three major oil sands areas: Athabasca, Cold Lake and Peace River. Oil sands deposits from these areas contain an estimated 175 billion barrels of reserves deemed economically recoverable with today's technology. Canada ranks second largest after Saudi Arabia in terms of global proven crude oil reserves, with an estimated 15% of the world's reserves. The majority of these reserves are found in Alberta's oil sands.

The advantages of oil sands include low exploration costs compared to conventional oil, long reserve life and long-term, stable production. Oil sands are composed primarily of sand, bitumen, mineral-rich clays and water. In its raw state, bitumen is a heavy, viscous, tar-like form of oil more solid than liquid. The synthetic crude oil developed from bitumen has low sulphur content and is a highly desirable feedstock for refineries because it produces minimal heavy fuel oil.

Of the approximately 315 billion barrels of potentially recoverable bitumen, the National Energy Board estimates that only approximately 69 billion barrels are shallow enough to be mined. According to the Canadian Association of Petroleum Producers, oil sands now account for approximately 50% of Western Canada's total oil production. The growth in oil sands production will more than offset the decline in conventional production, and by 2015 it is expected to account for more than 75% of Western Canada's production.

Canadian Oil Production



Synenco Energy Inc. (Synenco) was formed in 1999 to acquire and develop oil sands resources in the Athabasca region of northern Alberta. Since its inception, Synenco has advanced steadily toward its goal of developing oil sands mining, bitumen extraction and upgrading facilities, together called the Northern Lights Project (the Project). In May 2005, Synenco entered into a partnership agreement with SinoCanada Petroleum Corporation, the Canadian subsidiary of China-based Sinopec to form the Northern Lights Partnership (NLP). Through NLP, Synenco intends to develop and operate an oil sands mining and extraction facility in northeastern Alberta and an upgrader complex in Sturgeon County near Edmonton, Alberta. Synenco holds a 60% interest in the Northern Lights Partnership and acts as the managing partner (operator). Synenco also owns 100% of oil sands lease 7405090633 (Synenco Lease), an approximately 92 square kilometre area adjacent to NLP's western lease.

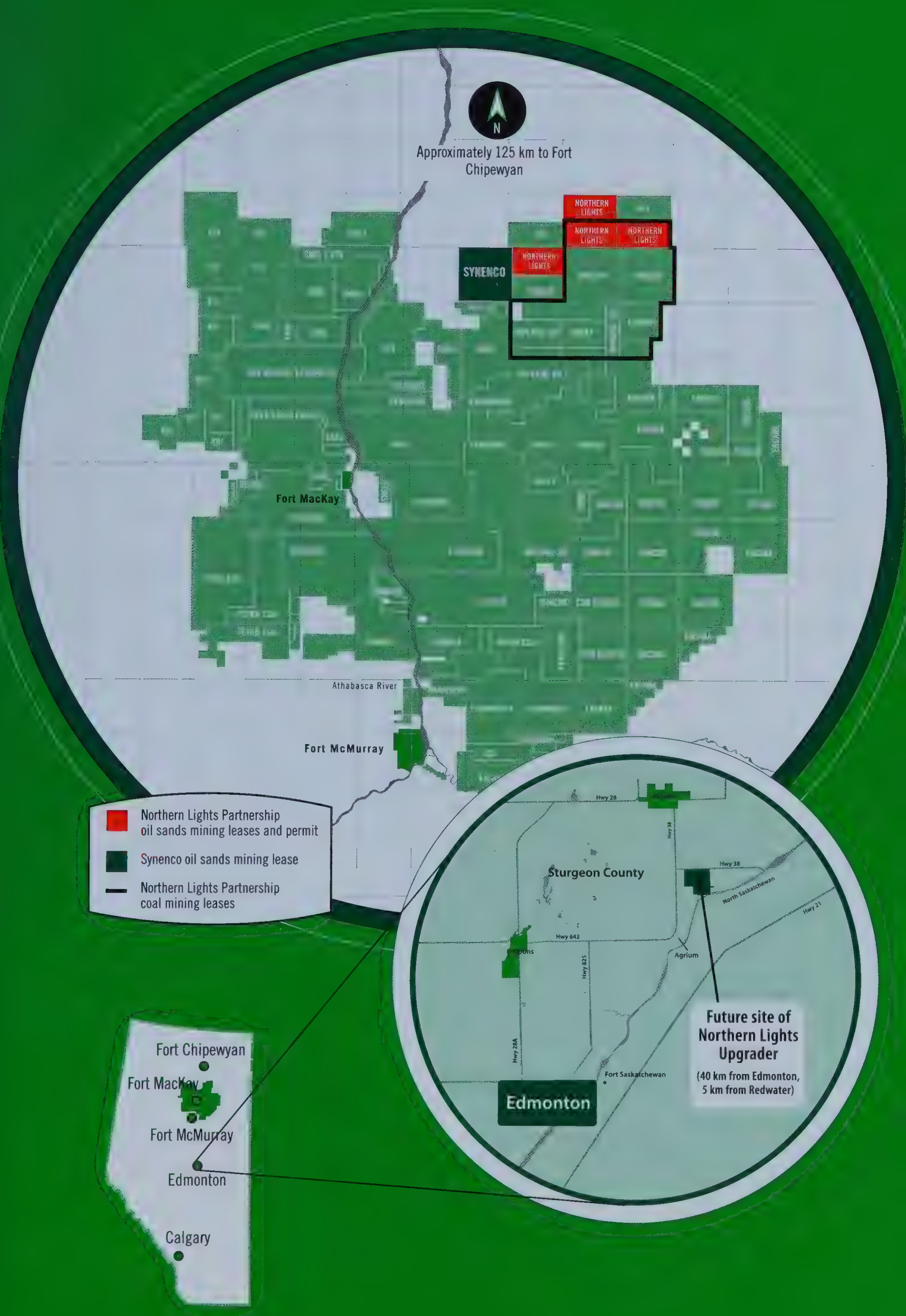
Mr. Mou Shuling, on behalf of Sinopec International Petroleum Exploration and Production Corporation and Mr. Michael Supple, on behalf of Synenco Energy Inc., conclude the signing ceremony establishing the Northern Lights Partnership in May 2005.

Upstream

Upstream activities include oil sands mining and bitumen extraction development activities as well as resource exploration activities. Synenco currently conducts upstream activities through its 60% ownership in NLP and through its 100% ownership of the Synenco Lease.

NLP LAND

The Northern Lights Partnership lands are comprised of oil sands leases 7404071015 and 7404071016, and oil sands permit 7002010005, referred to as the Central Lease, Western Lease and Northern Permit, respectively. NLP currently holds a 100% working interest in the Central Lease, subject to certain overriding royalties and claims, and a 100% working interest in the Western Lease and Northern Permit. The leases in aggregate comprise an area of approximately 186 square kilometres. NLP also holds title to applications for coal leases A13-96349, A13-96350, A13-96351 and A13-96352, an area that covers approximately 559 square kilometres.


N
Approximately 125 km to Fort Chipewyan
NORTHERN LIGHTS
NORTHERN LIGHTS
NORTHERN LIGHTS
NORTHERN LIGHTS
SYNENCO
Fort MacKay
Athabasca River
Fort McMurray
Northern Lights Partnership oil sands mining leases and permit
Synenco oil sands mining lease
Northern Lights Partnership coal mining leases
Hwy 28
Hwy 38
Sturgeon County
North Saskatchewan
Hwy 21
Hwy 643
Agrium
Hwy 825
Hwy 28A
Fort Saskatchewan
Edmonton
Future site of Northern Lights Upgrader
(40 km from Edmonton, 5 km from Redwater)
Fort Chipewyan
Fort MacKay
Fort McMurray
Edmonton
Calgary

Oil sands permits are granted by the Government of Alberta for a five-year term. If certain thresholds of evaluation are achieved on the applicable lands during this time, the permits may be converted, upon application to Alberta Energy, into primary leases having an initial term of 15 years. The Central Lease and the Western Lease were previously permits and have been successfully converted into primary leases. With respect to the Northern Permit, the five-year term is scheduled to expire in January 2007. Synenco believes that all applicable thresholds will be met prior to the expiration of the Northern Permit and that this permit will also be converted into a primary lease.

Synenco's 2006 winter drilling program involves both Northern Lights and the Synenco Lease. In total, Synenco has received authorization to drill 420 holes. The number of actual holes drilled will depend on several factors, including weather. The exploration program on the NLP lands is the largest to date and has the following goals:

- convert the Northern Permit to lease status;
- support mining and extraction engineering and design activities; and
- increase the certainty of resource quantity estimates.

On December 31, 2005, Norwest Corporation, an independent geology, engineering and environmental consultant to the mining industry and Synenco's independent resource evaluator, issued a report on NLP's in-place bitumen resources based on Synenco's cumulative drilling data. The report was prepared in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, issued by each of the securities regulatory authorities in Canada. The report did not include any results from the 2006 winter drilling program currently underway.

Northern Lights Project Discovered Resources Estimate (1)(2)(3)
(millions of barrels)

Area	P90 Low Estimate	P50 Best Estimate	P10 High Estimate
Central Lease Area	521	834	1,078
Northern Permit Area	25	39	375
Western Lease Area	290	619	925
Total	836	1,492	2,378
Synenco's Share	**502**	**895**	**1,427**

Notes:
(1) No dilution, mining losses or plant recovery factors have been applied to these definitions.
(2) The three categories differ in terms of level of confidence and are applied to estimates of in-place resource quantities. The three categories are:
Low Estimate – is a classification of estimated resources described in the COGE Handbook as P90, which reflects a level of confidence of the estimate indicating a probability of 90% that the actual quantity that is in-place will equal or exceed the in-place resource estimate
Best Estimate – is a classification of estimated resources described in the COGE Handbook as P50, which reflects a level of confidence of the estimate indicating a probability of 50% that the actual quantity that is in-place will equal or exceed the in-place resource estimate
High Estimate – is a classification of estimated resources described in the COGE Handbook as P10, which reflects a level of confidence of the estimate indicating a probability of 10% that the actual quantity that is in-place will equal or exceed the in-place resource estimate
(3) Discovered Resources means those quantities of oil and gas estimated on a given date to be remaining in, plus those quantities already produced from, known accumulations and are divided into economic and uneconomic categories, with the estimated future recoverable portion classified as reserves and contingent resources, respectively.

The current Best Estimate of discovered resources is approximately 1.5 billion barrels of in-place bitumen of which over 90% is contained in the Central and Western Lease areas. Synenco currently estimates the recoverable bitumen to be approximately 1.2 billion barrels after applying an 80% recovery factor to the Best Estimate of in-place bitumen, which management believes is reasonable.

SYNENCO LAND

During the year, Synenco acquired 100% of the Synenco Lease, for approximately $76 million in a public crown land sale. The lease, which covers approximately 92 square kilometres, is situated approximately 100 kilometres northeast of Fort McMurray, Alberta and is adjacent to a lease held by Suncor Energy Inc. and Northern Lights' Western Lease. Synenco believes it represents a significant strategic acquisition, further demonstrating its commitment to the oil sands and to Alberta.

An estimate of the in-place or recoverable bitumen from the Synenco Lease is unavailable at this time; however, management believes that the lease has significant potential. Synenco has commenced drilling activities on this land this winter. The Synenco Lease was purchased as a lease, not an oil sands permit and, as such, has an initial 15-year term.

Downstream

Downstream activities include bitumen upgrading and related development activities. Synenco currently conducts downstream activities through its 60% ownership in NLP.

From October through December, 2005, Synenco, on behalf of NLP, acquired approximately five square kilometres of industrial-use land in Sturgeon County near Edmonton, Alberta, for approximately $8 million. The land was acquired as the proposed site for the NLP upgrader complex and related facilities. In December 2005, NLP decided to build the upgrader complex in Sturgeon County after thoroughly assessing various location options. Synenco believes the new location will improve NLP's ability to control construction costs, provides greater access to labour and opens up new opportunities for value enhancement, such as the potential to process third-party bitumen and to access a more active market for by-products of the upgrader complex. A separate regulatory application for development of the upgrader complex has been initiated.

NLP – Project Development

NLP currently contemplates an oil sands mining and bitumen extraction facility in the Athabasca region of north-eastern Alberta and a separate bitumen upgrader complex to be constructed at the Sturgeon County site. Together, the integrated mining, extraction and upgrading facilities to be owned by NLP is referred to as the Northern Lights Project. The Project is currently at the early stages of its planned development schedule.

Synenco, as the managing partner of NLP, considers the following activities to be the most critical to the Project's development schedule over the next two years:

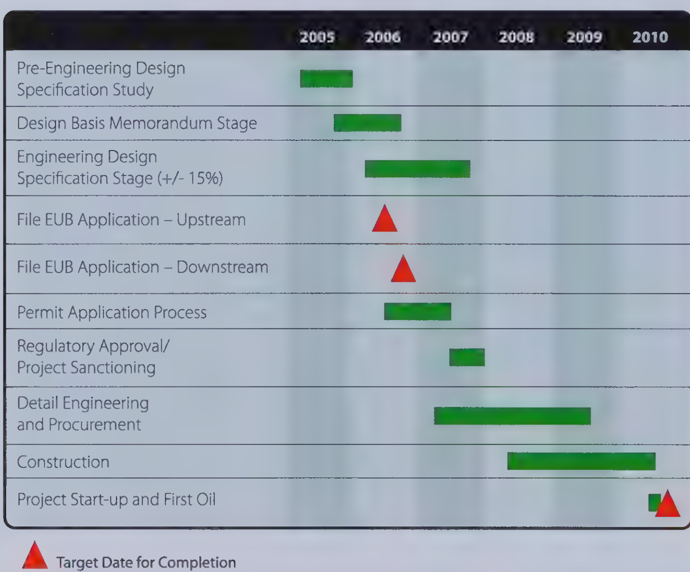
(a) Completing the Environmental Impact Assessments, submitting the Project's applications for regulatory approvaland obtainingregulatory approval;

(b) Completing the engineering stages of the Project so that risks associated with incomplete engineering have been addressed prior to the start of construction;

(c) Implementing the Project's contracting strategy.

The current Project development schedule is outlined below:

FIRST OIL DEVELOPMENT TIMELINE



REGULATORY UPDATE

The Project requires compliance with various statutes and regulations such as the Oil Sands Conservation Act, Alberta's Environmental Protection and Enhancement Act and the Canadian Environmental Assessment Act. A regulatory application including an environmental impact assessment must be prepared and various regulatory approvals must be obtained from both Alberta Environment and the Alberta Energy and Utilities Board. This regulatory application includes the environmental and socio-economic impact assessment, environmental policies in respect of the Project, technical details of the proposed mine plan, extraction and upgrading facilities, and economic information regarding the Project.

Successful advancement of the required regulatory application involves significant consultation with public stakeholders including government, First Nations, Métis, industry members and interest groups. As managing partner on behalf of NLP, Synenco issued an updated Public Disclosure Document in October 2005. An update to the original Public Disclosure Document issued by Synenco in September 2002, this document reintroduced the Northern Lights Project to stakeholders and recommenced the Project's consultative efforts. It summarized Project activities since 2002, provided an overview of the Project as currently conceived and outlined current and planned activities.

Until recently, the Project concept envisioned upgrading facilities adjacent to the mining and extraction facilities in the Athabasca region of northeastern Alberta. However, in December 2005, NLP announced its intention to locate the upgrader complex to land acquired in Sturgeon County, Alberta. Consequently, NLP has issued revised terms of reference for the environmental impact assessment relating to the mining and extraction facilities and has provided an addendum to the October 2005 Public Disclosure Document. NLP has also commenced preparation of a separate regulatory application for the upgrader complex. This will include publication of terms of reference for an environmental impact assessment in respect of the upgrader complex and issuance of a Public Disclosure Document relating to these separate operations. Synenco currently expects NLP to submit the application for regulatory approval of the mining and extraction facilities by mid-2006 and the regulatory application for the upgrader complex in late third quarter or early fourth quarter of 2006.

ENGINEERING UPDATE

Large-scale oil sands projects are highly customized with a low level of standardization. As a result, the Project will involve a prescriptive set of engineering phases. The purpose of each phase is to establish in progressive levels of detail, that which is important for an efficient construction effort. At the completion of each phase, the level of project definition is increased, which in turn increases the dependability of the Project cost estimates. Synenco does not expect to commence field construction activities for NLP until the risk associated with incomplete engineering has been substantially mitigated.

NLP's development schedule involves three engineering stages:

1. Feasibility study and concept;
2. Front-End Engineering and Design (FEED); and
3. Detailed engineering.

NLP is currently in the Design Basis Memorandum (DBM) phase of the FEED stage. The DBM will serve as the overall governing document for each successive engineering phase and the resulting construction efforts. In the fourth quarter of 2005, Synenco initiated the selection process for owner's engineers, and DBM service providers for bitumen production (extraction), upgrading, infrastructure, and utilities and offsites. In early 2006, NLP issued a notice of award to the engineering firm of Jacobs Canada Inc. (Jacobs) to provide the bulk of the owner's engineering services with the UMA Engineering Ltd. (UMA) being awarded owner's engineering services related to infrastructure. In addition, NLP provided notices of award for various components of the DBM engineering as follows:

- Infrastructure – UMA;
- Utilities and offsites – consortium of UMA and Black & Veatch Canada Company;
- Bitumen production – joint venture between AMEC Americas Limited and Colt Engineering Corporation; and
- Upgrading – with training and input by Jacobs and Sinopec Engineering Incorporation.

In 2006, Synenco expects that NLP will complete the DBM phase of the FEED stage and be advanced in to Engineering Design Specification works by year-end. At the end of DBM, the Project design is expected to be fixed and the level of Project definition will approximate 20%.

COST AND CONTRACTING UPDATE

The following table sets forth Synenco's latest estimate of the capital costs required for the Project. As owner of a 60% partnership interest in NLP, Synenco's share of these costs will be 60%.

Estimated Project Capital Costs (1)(2)
($ millions in constant 2005 dollars)

	Phase I	Phase II	Total	Synenco's Share
Mining	$ 473	$ 310	$ 783	$ 470
Extraction	326	214	540	324
Upgrading & Gasification	1,701	1,116	2,817	1,690
Contingency and Owners' Costs	703	451	1,164	698
Total	**$ 3,203**	**$ 2,091**	**$ 5,304**	**$ 3,182**

Notes:
(1) Includes $558.4 million (Synenco's share - $335.0 million) of pre-sanctioning costs, including pre-sanctioning work program costs of $365 million and long-lead time equipment orders of $193.4 million.
(2) Considering the stage of development of the Project, Synenco estimates the accuracy of the cost estimate to be in the range of +/- 30%.

Synenco's contracting strategy is to distribute Project construction and cost risk to the individual party that is best capable of managing the risk. Overall Project management will be directly retained by Synenco with the assistance of the dedicated third-party owner's engineers. To execute the contracting strategy, Synenco will divide the overall Project into discrete, manageable work parcels, developing contractor selection criteria and establishing a process to evaluate contractors against the selection criteria.

Upon selection of a contractor, Synenco expects that the selected contractor will become a direct participant in the Project's engineering and design efforts from that point forward. This is intended to provide the construction contractor with sufficient transparency into overall site and interface planning. Synenco also expects the contractor to provide a fixed-price turnkey contract for its work parcel once engineering and design works have been sufficiently advanced.

As a result of this contracting strategy, Synenco expects NLP will be able to secure acceptably priced fixed-price turnkey contracts for 40% to 60% of the total Project costs, thereby achieving an acceptable level of price certainty for a significant segment of total Project costs prior to the start of construction. Afterward, certain Project cost components such as field construction labour and steel, are likely to remain variably priced.

ORGANIZATION DEVELOPMENT

In 2005, Michael Supple committed to remaining as Executive Chairman and Chief Executive Officer for the next two years and Todd Newton assumed the role of President and Chief Operating Officer. Synenco augmented its executive team through the appointments of Bernard (Bert) Lang as Executive Vice President, Engineering and Design and Denise Hendrickson as Synenco's General Counsel. In addition, Synenco filled a number of senior management positions retaining Chris Yellowega as Vice President, Upstream Operations, Ed Oke as Vice President, Human Resources, Max Dufour as Chief Information Officer and John Clarke as Project Controller. Synenco's 2006 recruitment efforts are intended to address three areas:

(1) developing the corporate management and support teams that will oversee the implementation of Synenco's corporate strategy;

(2) developing the first-level operational management teams for upstream and downstream operations; and

(3) securing resources for NLP's engineering and design program. Management will continue to focus on recruitment and retention of employees for core functions, and will seek strategic alliances with service providers for temporary Project needs and outsource non-core functions.

To date, Synenco's recruitment and retention efforts have been successful despite historically low unemployment and unprecedented economic growth in Alberta. Synenco management believes it will continue to succeed in its recruitment and retention efforts in 2006.

management's discussion and analysis

The following Management's Discussion and Analysis (MD&A) of Synenco Energy Inc. (Synenco) is dated February 22, 2006 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005. Additional information with respect to Synenco, including the Annual Information Form for the year ended December 31, 2005 can be found on SEDAR at www.sedar.com or on Synenco's website at www.synenco.com.

DISCLOSURE CONTROLS AND PROCEDURES

As at the financial year ended December 31, 2005, an evaluation was carried out under the supervision of and with the participation of Synenco's management, including the Chief Executive Officer and the President and Chief Operating Officer (acting as Chief Financial Officer), of the effectiveness of Synenco's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the President and Chief Operating Officer (acting as Chief Financial Officer), concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2005 to provide reasonable assurance that material information relating to Synenco and its consolidated entities would be made known to them.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, including information as to Synenco's or the Northern Lights Partnership's (NLP's) future financial or operating performance or its projects, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results implied or expressed in such forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. Such forward-looking statements include, among other things, statements regarding: (a) NLP's ongoing resource base determination; (b) the finalization of the concepts and designs for the Northern Lights Project (the Project); (c) the planned capital costs; and (d) the sufficiency of Synenco's and NLP's financial resources and access to the markets to achieve the next steps in plans for construction.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Synenco or its consultants at the time, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause actual results to differ materially from those expressed or implied in forward-looking statements made by Synenco or on its behalf by its consultants. These factors include but are not limited to market conditions, law or government policy, operating conditions and costs, project schedules, operating performance, demand for oil, gas and related products, price and exchange rate fluctuations, commercial negotiations and other technical and economic factors. See also "Risk Factors" in Synenco's Annual Information Form. Furthermore, the Northern Lights Project is in the early stages of engineering and revisions and enhancements will occur. These forward-looking statements are made only as of the date of this MD&A and are not guarantees of future performance. Investors are strongly cautioned that forward-looking statements are inherently uncertain and undue reliance must not be placed on them. Actual results will differ, and in some cases will likely differ materially.

RESULTS OF OPERATIONS

A summary of Synenco's financial results as at and for the 12 months ended December 31, 2005, 2004 and 2003 is included below:

Selected Annual Information
(in thousands except per share data)

For the years ended December 31,	2005	2004	2003
Revenue	**(3,324)**	(73)	(60)
Personnel costs	**4,488**	2,644	264
Stock-based compensation	**1,954**	6,746	98
Financing costs	**817**	675	94
Office, corporate and other	**2,718**	566	398
Income tax recovery	**(781)**	(1,156)	(541)
Net loss	**(5,872)**	(9,402)	(253)
Net loss per share			
Basic and diluted	**(0.22)**	(0.48)	(0.01)
Capital expenditures	**107,948**	9,370	7,043
Total assets	**577,986**	40,448	31,846
Shareholders' equity	**424,843**	29,519	27,514
Common shares outstanding	**48,013**	20,525	18,928

COMPARISON OF YEARS ENDED DECEMBER 31, 2005 AND 2004

Net Loss

The net loss for the year ended December 31, 2005 was $5.9 million ($0.22 per diluted share) compared to a net loss of $9.4 million ($0.48 per diluted share) in 2004. The lower net loss can mainly be attributed to higher interest income and lower stock-based compensation recognized in 2005 as compared with 2004. This was partially offset by higher costs associated with increased corporate activity in 2005.

Synenco is a project development company. Most costs incurred relate to project development activities and are capitalized. Synenco expects it will continue to report net losses until project development activities are complete and operations commence.

Revenue

Revenue is comprised of interest earned on cash and cash equivalents and short-term investments held during the period. Interest income for the year ended December 31, 2005 was higher than the same period in 2004 due to the higher average investment balance in 2005 on account of the cash received from sales of common shares.

Stock-based Compensation

Stock-based compensation was $2.0 million and $6.7 million for the years ended December 31, 2005 and 2004 respectively. The decrease in stock-based compensation is due to fewer options granted in 2005 than 2004.

Personnel Costs

Personnel costs increased from $2.6 million for the year ended December 31, 2004 to $4.5 million for the same period in 2005. Synenco recorded termination and severance costs of $1.5 million in 2005 comprised of $0.3 million paid to settle a claim filed in 2004 by a former Executive, and $1.2 million as a result of the termination of Synenco's former President and Chief Executive Officer in July 2005. In addition to severance costs, Synenco also incurred increased personnel costs in 2005 resulting from staff additions and recruitment efforts.

Office, Corporate and Other

For the years ended December 31, 2005 and 2004, Synenco incurred other costs of $2.7 million and $0.6 million, respectively. Other costs were higher as a result of $0.8 million in increased office costs due to increased corporate and project activity, $0.4 million of compensation expense recognized for remuneration to the Board of Directors and $0.3 million in increased amortization resulting from leasehold expansions.

Income Tax Recovery

Income tax recovery recognized was $0.8 million for the year ended December 31, 2005 and $1.2 million for the year ended December 31, 2004. Had the 2005 statutory tax rate of 37.62% been applied to the 2005 loss before income taxes, the tax recovery would have been $2.5 million as compared with the actual tax recovery of $0.8 million. This difference mainly relates to the tax effect of stock-based compensation of $0.7 million, which does not result in a reduction in corporate taxable income, the valuation allowance recorded relating to non-capital loss carry forwards that are not anticipated to be utilized of $0.2 million and negative resource allowance of $0.5 million.

Had the 2004 statutory tax rate of 38.87% been applied to the 2004 loss before income taxes, the tax recovery would have been $4.1 million as compared to the actual tax recovery of $1.2 million. This difference mainly relates to the tax effect of stock-based compensation of $2.6 million which does not result in a reduction in corporate taxable income, and negative resource allowance of $0.3 million.

Total Assets

Total assets were $578.0 million and $40.4 million as at December 31, 2005 and 2004 respectively. The increase in total assets in 2005 is attributed to the net combined proceeds raised from Synenco's initial public offering (IPO) of common stock and the related over-allotment option exercise of $295.8 million and the cash contribution from SinoCanada Petroleum Corporation, the Canadian subsidiary of China-based Sinopec (Sinopec), of $149.7 million received as part of the formation of the Northern Lights Partnership. Synenco also received $25 million from Laminar Direct Capital, L.P. and affiliates (Laminar) upon the exercise of one of their warrants, and net proceeds of $55.8 million from a private placement of common stock.

Capital Expenditures

Capital expenditures increased from $9.4 million in 2004 to $107.9 million in 2005. In September 2005, Synenco acquired oil sands lease 7405090633 (Synenco Lease) for approximately $76 million. During 2005, Synenco also acquired five square kilometres of land in Sturgeon County located near Edmonton, Alberta for $8.2 million and acquired Anglo Minerals Ltd.'s minority interest in an oil sands lease and certain coal lease applications for $4.9 million. The remainder of the increase in capital expenditures for the year ended December 31, 2005 as compared with the same period in 2004 is due to capitalized finance costs, work related to the Environmental Impact Assessment (EIA), Project design and engineering efforts and the winter 2004/2005 drilling program.

COMPARISON OF YEARS ENDED DECEMBER 31, 2004 AND 2003

Net Loss

The net loss for 2004 was $9.4 million ($0.48 per diluted share) compared to $0.3 million ($0.01 per diluted share) in 2003. The net loss includes stock-based compensation expense of $6.7 million and $0.1 million related to options granted to employees and directors during the years ended 2004 and 2003 respectively.

Excluding the non-cash stock-based compensation, expenses were $3.9 million for the year ended December 31, 2004 compared to $0.8 million for the same period in 2003. The increase relates primarily to relocation and recruiting expense incurred in connection with the new officers of Synenco, increased compensation resulting from staff additions, salary increases to certain existing employees and the accrual of employee termination benefits.

SUMMARY OF QUARTERLY RESULTS

A summary of Synenco's eight most recently completed quarters is included below:

(in thousands except per share data)

2005					
	Q1	**Q2**	**Q3**	**Q4**	**Total**
Revenue	**15**	**340**	**1,039**	**1,930**	**3,324**
Net loss	**1,370**	**721**	**2,594**	**1,187**	**5,872**
Loss per share					
Basic and diluted	**0.07**	**0.03**	**0.10**	**0.03**	**0.22**
Capital expenditures	**5,944**	**5,222**	**80,364**	**16,418**	**107,948**

2004					
	Q1	Q2	Q3	Q4	Total
Revenue	25	2	18	28	73
Net loss	5,193	1,536	1,357	1,316	9,402
Loss per share					
Basic and diluted	0.27	0.08	0.07	0.06	0.48
Capital expenditures	5,854	1,149	1,107	1,260	9,370

Fourth Quarter Results

The net loss for the fourth quarter 2005 was $1.2 million ($0.03 per diluted share), compared with a net loss of $1.3 million ($0.06 per diluted share) for the same period ended 2004. The decrease related to higher interest income of $1.9 million, which was mostly offset by the increase in office and corporate costs and personnel costs.

LIQUIDITY

As at December 31, 2005, Synenco's consolidated balance sheet presents cash and cash equivalents totaling $427.4 million. Synenco holds a 60% interest in and is managing partner of NLP and consolidates NLP in its financial reporting. Only 60% of NLP cash and cash equivalent balances are available to meet Synenco's share of future NLP obligations. Synenco's share of the total consolidated cash and cash equivalents available to meet its future obligations is $387.7 million.

At December 31, 2005, Synenco had positive working capital of $421.7 million and had no long-term debt nor long-term obligations, other than as described in note 13 of the December 31, 2005 audited consolidated financial statements. Synenco's share of total consolidated working capital available to meet its future obligations is $384.3 million.

A summary of the statements of cash flows for the years ended December 31, 2005, 2004 and 2003 is included below:

Net Cash Inflows/(Outflows)
(in thousands)

Years ended December 31	2005	2004	2003
Operating activities	(4,406)	(3,565)	(645)
Financing activities	492,568	10,979	8,696
Investing activities	(65,507)	(9,097)	(6,698)
Net increase (decrease) in cash	422,655	(1,683)	1,353

Operating Activities
The majority of Synenco's operating cash flows during the year ended December 31, 2005 related to employee costs and office and corporate costs.

Financing Activities
On March 10, 2005, Synenco issued 350,000 common shares at a price of $3.00 per share pursuant to an agreement that entitled the shareholder to participate in past private placements of common shares. In return, the shareholder relinquished all future participation rights.

On March 21, 2005, Synenco entered into a series of equity and credit agreements with Laminar which included a secured note for $25 million. The note was repaid in full on May 31, 2005.

On March 24, 2005, Synenco repaid its $5 million unsecured subordinated convertible debenture to a Canadian financial institution.

On May 30, 2005, Synenco and Sinopec formed NLP. To create NLP, Synenco sold 14.4762% of its Project assets to Sinopec for $38 million. Synenco then contributed the remaining 85.5238% of its interests in the Project assets to NLP in return for a 60% interest in NLP, and Sinopec contributed its 14.4762% interest in the Project assets and approximately $111.7 million of cash to NLP in return for a 40% interest in NLP.

On June 8, 2005, Laminar exercised a warrant granted to it in connection with the March financing arrangement. The warrant entitled Laminar to purchase 3,571,428 common shares at an exercise price of $7.00 per share for proceeds to Synenco of $25 million.

On August 31, 2005, Synenco closed a private placement of 4,285,750 common shares at a price of $14.00 per share for gross proceeds of $60 million.

On August 31, 2005, Synenco issued 55,300 common shares at a price of $14.00 per share pursuant to an employment agreement with an Executive Officer for proceeds of $0.8 million.

On September 9, 2005, Synenco issued 76,000 common shares to non-executive employees at a price of $14.00 per share pursuant to a non-executive employee purchase plan for proceeds of $1.1 million. The purpose of the non-executive employee purchase plan included aligning employee interests with Synenco's interests, thereby increasing commitment to its success and reducing the potential for attrition during the next critical phase of development.

On November 15, 2005, under the IPO, Synenco issued 15,750,000 common shares at a price of $17.50 per share for gross proceeds of $275.6 million.

On November 15, 2005, Synenco issued 220,000 flow-through common shares at a price of $22.75 per share for gross proceeds of $5 million.

On December 20, 2005, the IPO underwriting syndicate chose to fully exercise an over-allotment option to purchase an additional 2,360,000 common shares at a price of $17.50 per share for gross proceeds of $41.3 million.

Investing Activities

For the twelve months ended December 31, 2005, Synenco invested $107.9 million in property plant and equipment. These expenditures are mainly comprised of the acquisition of the Synenco Lease for approximately $76 million, the acquisition of land in Sturgeon County near Edmonton, Alberta for $8.2 million and the purchase of Anglo's interest in the Central Lease and coal lease applications for $4.9 million. The remainder of the capital expenditures are related to capitalized finance costs, EIA, Project design and engineering efforts and the winter 2004/2005 drilling program.

On May 30, 2005, Synenco sold 14.4762% of its Project assets to Sinopec for $38 million.

OUTSTANDING SHARE DATA

The number of outstanding shares at February 22, 2006 is 48,680,377.

COMMITMENTS

A summary of the operating leases for office space and office equipment at December 31, 2005 that Synenco has entered into is included below:

	2006	2007	2008	2009	2010	Total
Operating Leases	$625,188	$537,397	$508,321	$508,321	$421,709	$2,600,936

In December 2005, SNC-Lavalin gave Synenco notice of termination of the SNC-Lavalin Master Services Agreement dated August 27, 2004. The notice of termination releases Synenco from any future obligation to purchase engineering hours or services from SNC-Lavalin and voids all other provisions of the August 27, 2004 agreement.

RELATED PARTY TRANSACTIONS

Pursuant to a participation right as described in note 9 of the December 31, 2005 audited consolidated financial statements, Synenco issued 625,000 common shares at $14.00 per share for proceeds of $8.8 million as part of the August 31, 2005 private placement to Laminar, a company that is controlled by a Director. Pursuant to the same right, Synenco issued 930,000 common shares to Laminar at $17.50 per share for proceeds of $16.3 million on its IPO.

Synenco purchased $1.6 million and $0.3 million for the 12 months ended December 31, 2005 and 2004 respectively of legal services from a law firm in which a Director is a Partner. Pursuant to a Secondment agreement, NLP purchased $256,124 of services from Sinopec for the year ended December 31, 2005.

CRITICAL ACCOUNTING ESTIMATES

Synenco's critical accounting estimates are estimates that have, or could have, a material impact on results of operations or its financial position. These estimates require management to make assumptions and estimates in the application of Canadian generally accepted accounting principles. As circumstances change and additional information becomes available, these estimates may be subject to change. The following are considered critical accounting estimates used in the preparation of the consolidated financial statements:

Capital Assets

Capital assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated future cash flows. The calculation of these future cash flows are dependent on a number of estimates, which include resources, production, commodity prices, operating cost estimates and foreign exchange rates.

Synenco capitalizes certain costs relating to the Project. Measurement of capitalized costs at each financial statement date requires significant estimates to be made in respect of the engineering and drilling progress.

Future Income Tax

Future income tax assets and liabilities are recognized at the tax rates at which it is expected that the temporary difference will reverse. This expectation is based on future earnings and is subject to estimation.

Stock-based Compensation

The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance.

FINANCIAL CONDITION AND OUTLOOK

The total capital cost of the Project was estimated at $5.3 billion in 2005 dollars. The estimate had a precision level of + or – 30% and the estimated Project cost will be subject to refinements and changes as engineering works advance and as raw material and labour costs change. Over the next two years, Synenco forecasts the pre-sanctioning capital expenditures and long lead-time equipment orders for the Project to total approximately $560 million, of which Synenco's share will be 60%.

Pre-sanctioning expenditures will be directed towards those efforts required to submit the Project's regulatory application, obtain the regulatory approval, finalize the Project's design, implement Synenco's project management strategy by advancing the pre-construction level of engineering until the risk associated with incomplete engineering is substantially mitigated, develop the human resources and systems complement required to fulfill Synenco's managing partner role for the Northern Lights Partnership, construct infrastructure to facilitate year-round access and work conditions on the Project site and meet Synenco's other general corporate requirements.

Synenco expects that its current cash will be sufficient to allow it to meet its share of the Project's pre-sanctioning expenditure program.

Synenco anticipates that in 2006, NLP will spend approximately $197 million on activities including Project development costs, exploration costs associated with its wholly-owned oil sands property and other corporate development costs. Project development costs relate mostly to costs associated with application preparation and project engineering.

Synenco's budget includes an ongoing winter drilling program involving both NLP and its wholly-owned oil sands property, the Synenco Lease. In total, Synenco has received authorization to drill 420 holes. The number of actual holes drilled will depend on several factors, including weather.

Personnel growth is expected to continue to increase over the next five years as Synenco achieves organizational build-out. For 2006, Synenco anticipates hiring or retaining approximately 150 new staff, most of whom will be engaged in development of the Northern Lights Project.

BUSINESS RISKS AND UNCERTAINTIES

Synenco does not have material operations or interests in properties other than those related to the Project which are held through NLP, and the Synenco Lease. Accordingly, Synenco is exclusively dependent upon the success of the Project and the development of the Synenco Lease. No production revenues are expected until commercialization of the Project.

Estimates with respect to resources identified to date are prepared by independent geological engineers based on data identified to date from Synenco's drilling activities. However, such geological and engineering estimates have inherent uncertainties and may vary considerably from actual results.

At this early stage of development, Synenco is subject to all the risks inherent in oil sands development and exploration, including project feasibility, operation and revenue uncertainties, market size profitability and the ability to raise further capital to fund activities. These risks are further concentrated in Synenco's dependence on the Project and the development of the Synenco Lease and there can be no assurance that Synenco will be successful in overcoming these risks.

Investors should refer to "Risk Factors" in Synenco's Annual Information Form for further details.

management's report

All information contained in this annual report is the responsibility of management and the audited consolidated financial statements are approved by the Board of Directors of the Company. The financial statements have been prepared by management and are presented fairly in accordance with accounting principles generally accepted in Canada and, where appropriate, are based on estimates and judgments that reflect management's best estimates based on currently available information. Management maintains a system of internal controls to provide reasonable assurance that all of the Company's assets are safeguarded and to facilitate the preparation of relevant, accurate and timely information. The financial information presented throughout this annual report is consistent with the financial statements.

The Board of Directors, through its Audit & Risk Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit & Risk Committee reviews the independence of the external auditors, pre-approves audit and permitted non-audit services and reviews the consolidated financial statements and other financial disclosure documents before they are presented to the Board for approval.

Michael Supple
Chief Executive Officer and Executive Chairman
February 22, 2006
Calgary, Alberta

Todd Newton
President and Chief Operating Officer
February 22, 2006
Calgary, Alberta

To the Shareholders of Synenco Energy Inc.:

We have audited the consolidated balance sheets of Synenco Energy Inc. as at December 31, 2005 and 2004 and the consolidated statements of loss and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
Calgary, Alberta
February 22, 2006

consolidated balance sheets

As at December 31,	2005	2004
Assets		
Current assets		
Cash and cash equivalents	**$ 427,397,317**	$ 4,742,301
Goods and Services Tax and interest receivable	**858,427**	49,338
Deposits and prepaid expenses	**150,587**	40,216
Deferred financing costs	**–**	52,828
Capital tax receivable	**–**	29,855
	428,406,331	4,914,538
Property, plant and equipment *(note 3)*	**149,579,880**	35,533,781
Total Assets	**$ 577,986,211**	$ 40,448,319
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 6,562,477**	$ 1,282,942
Capital tax payable	**97,891**	–
Convertible debenture *(note 4)*	**–**	5,000,000
	6,660,368	6,282,942
Future income taxes *(note 5)*	**7,010,535**	4,646,160
Non-controlling interest *(notes 5 and 6)*	**139,472,634**	–
Total Liabilities	**153,143,537**	10,929,102
Contingencies *(note 12)*		
Commitments *(note 13)*		
Shareholders' Equity		
Share capital *(note 7)*	**430,326,008**	32,599,895
Contributed surplus *(notes 7, 8 and 9)*	**11,004,705**	7,535,384
Accumulated deficit	**(16,488,039)**	(10,616,062)
	424,842,674	29,519,217
Total Liabilities and Shareholders' Equity	**$ 577,986,211**	$ 40,448,319

See accompanying notes

Approved by the Board:

Director

Director

consolidated statements of loss and accumulated deficit

For the years ended December 31,	2005	2004
Revenue		
Interest	$ 3,324,330	$ 73,384
Expenses		
Personnel costs *(notes 8 and 12)*	4,487,847	2,644,039
Stock-based compensation *(note 8)*	1,953,673	6,745,668
Office and corporate	1,030,052	262,523
Financing costs	816,936	675,202
Board of Directors fees	438,567	–
Professional fees	347,446	150,523
Amortization	326,579	44,269
Other	509,948	108,914
	9,911,048	10,631,138
Loss before non-controlling interest and income taxes	(6,586,718)	(10,557,754)
Non-controlling interest *(note 6)*	65,861	–
Loss before income taxes	(6,652,579)	(10,557,754)
Income taxes (recovery) *(note 5)*		
Large corporation tax	97,891	–
Future	(878,493)	(1,156,077)
Income tax recovery	(780,602)	(1,156,077)
Net loss	(5,871,977)	(9,401,677)
Accumulated deficit, beginning of year	(10,616,062)	(1,214,385)
Accumulated deficit, end of year	$ (16,488,039)	$ (10,616,062)
Net loss per share *(note 7)*		
Basic and diluted	$ (0.22)	$ (0.48)
Weighted average number of shares outstanding		
Basic and diluted *(note 7)*	26,635,158	19,654,311

See accompanying notes

consolidated statements of cash flows

For the years ended December 31,	2005	2004
Operating activities		
Net loss	$ (5,871,977)	$ (9,401,677)
Items not affecting cash		
Stock-based compensation	1,953,673	6,745,668
Amortization	326,579	44,269
Non-controlling interest	65,861	–
Future income tax recovery	(878,493)	(1,156,077)
	(4,404,357)	(3,767,817)
Changes in non-cash working capital	(2,048)	202,709
Cash used by operating activities	(4,406,405)	(3,565,108)
Financing activities		
Proceeds from share issuances	413,095,636	5,862,360
Non-controlling interest contributions to Partnership	111,666,667	–
Share issuance costs	(25,728,221)	(65,675)
Secured note issuance	22,727,272	–
Repayment of secured note	(22,727,272)	–
Debenture	(5,000,000)	5,000,000
Capitalized interest and debt issuance costs	(1,567,030)	–
Changes in non-cash working capital	101,253	182,326
Cash provided by financing activities	492,568,305	10,979,011
Investing activities		
Property, plant and equipment expenditures	(107,948,328)	(9,369,926)
Proceeds from sale of lease interest	38,000,000	–
Changes in non-cash working capital	4,441,444	272,658
Cash used by investing activities	(65,506,884)	(9,097,268)
Net increase (decrease) in cash and cash equivalents	422,655,016	(1,683,365)
Cash and cash equivalents, beginning of year	4,742,301	6,425,666
Cash and cash equivalents, end of year	$ 427,397,317	$ 4,742,301
Cash and cash equivalents is comprised of:		
Deposits with banks	$ 9,786,664	$ 427,779
Term deposits	417,610,653	4,314,522
	$ 427,397,317	$ 4,742,301
Supplemental cash flows information		
Capital taxes paid	$ 3,789	$ 29,855
Interest paid	$ 435,865	$ –

See accompanying notes

1. Nature of Operations

Synenco Energy Inc. (Synenco) is a development stage entity and is in the business of developing oil sands related assets in Alberta through its interest in the Northern Lights Partnership (NLP) and other direct interests. The continued existence of Synenco is dependent upon its ability to obtain capital to fund further development and to meet obligations to preserve its interests in its existing properties.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that Synenco will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

2. Significant Accounting Policies

PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements of Synenco are presented in accordance with Canadian generally accepted accounting principles. The underlying financial records contain amounts based on informed estimates and judgments by management that affect the reported amounts of such assets and liabilities and the reported amounts of revenues and expenses during the year. Actual amounts could differ from these estimates.

Certain comparative figures have been reclassified to conform to the current year's presentation.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Synenco and NLP, a variable interest entity. NLP will be a variable interest entity until it is able to be self sustaining. Inter-entity transactions are eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of investments in money market instruments with an initial maturity date of three months or less.

OIL SANDS ACTIVITIES

Capitalized costs associated with Synenco's oil sands activities include land acquisition costs, exploration and development thereon, geological and geophysical costs, regulatory costs, carrying charges on non-productive properties and capitalized corporate and personnel costs. Management believes that the carrying value of these costs will be recovered from future operations. No amortization has been recorded with respect to these costs to date as production has not yet commenced.

Once commercial production commences, capitalized costs will be amortized using the unit of production method based on estimated proven developed reserves attributed to the Northern Lights Project (the Project).

If exploration and development of the Project is ceased or if it is determined that its carrying value cannot be supported by future production or sale, the excess carrying value above recoverable value will be charged against operations in the period that the determination of an impairment is made.

FINANCIAL INSTRUMENTS

Financial instruments of Synenco consist of cash and cash equivalents, Goods and Services Tax and interest receivable and accounts payable and accrued liabilities. The fair values of these instruments approximate their carrying value due to their short term nature.

INCOME TAXES

Income taxes are accounted for using the liability method. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be used to reduce taxable income in the year they are incurred, provided those benefits are more likely than not to be realized in a future period. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

FLOW-THROUGH SHARES

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to Synenco.

Future income taxes are recorded and share capital is reduced by the tax effect of the related expenditures when the expenditures are renounced.

STOCK-BASED COMPENSATION

Stock-based compensation costs are accounted for using the fair value method and the Black-Scholes model is used for the computation of fair value. Compensation costs are recorded based on the estimated fair value of the option on the option's grant date. The fair value is either capitalized to property, plant and equipment or expensed over the period the options vest with a corresponding increase to contributed surplus. Once options are exercised, the corresponding value recorded in contributed surplus is recorded in share capital.

Stock-based compensation of personnel dedicated to Project development is capitalized as property, plant and equipment.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if stock options were exercised. The treasury stock method is used to determine the dilutive effect of stock options. In a period in which there is a loss, per share amounts are calculated without the inclusion of dilutive securities.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of the obligations' fair value can be determined. The obligations are discounted and are adjusted to their present value in subsequent periods. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset, and the asset will be depreciated over the asset's useful life.

DEFERRED FINANCING COSTS

Financing costs applicable to equity financings are charged to share capital upon the related issuance of shares. Deferred financing costs applicable to debt financings are amortized over the terms of the related debt. Any deferred debt financing costs amortized will be capitalized as property, plant and equipment until such time as commercial production commences.

3. Property, Plant and Equipment

A summary of property, plant and equipment for the years ended December 31, 2005 and 2004 is included below:

For the years ended December 31,	2005	2004
Resource properties	$ 83,743,160	$ 1,659,007
Other lands	8,233,310	–
Exploration and evaluation programs	30,455,285	23,632,693
Project design and engineering	12,348,944	5,194,486
Capitalized corporate and personnel costs	6,445,780	4,526,619
Capitalized finance costs	6,011,677	–
Other	512,767	453,810
	147,750,923	35,466,615
Corporate assets	2,313,037	224,667
	150,063,960	35,691,282
Less: Accumulated amortization	(484,080)	(157,501)
	$ 149,579,880	$ 35,533,781

Corporate assets are amortized over their estimated useful lives.

4. Convertible Debenture

On July 3, 2004, Synenco issued an unsecured convertible, subordinated debenture to a Canadian financial institution for an initial principal amount of $5,000,000. The debenture carried certain rights and privileges for the holder, including conversion into common shares under certain conditions. On March 24, 2005, Synenco repaid the debenture.

5. Income Taxes

Tax recovery recorded in the consolidated financial statements differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rate of 37.62% (2004 – 38.87%) to loss before income taxes as follows:

	2005	2004
Expected income tax recovery	$ (2,502,700)	$ (4,103,799)
Resource allowance	465,213	271,662
Stock-based compensation	734,972	2,622,041
Change resulting from expected tax rate changes	184,182	63,568
Loss carry forwards	225,816	–
Large corporation tax	97,891	–
Other	14,024	(9,549)
	$ (780,602)	$ (1,156,077)

The future income tax recovery for the year ended December 31, 2005 differed from the change in future income tax liability due to the following:

	2005
Increase in future tax liability during the period	$ 2,364,375
Increases in non-controlling interest pursuant to tax entitlements per NLP agreements	(13,109,894)
Increases to property resulting from capitalized stock-based compensation and warrants	(1,632,838)
Increases to share capital related to the tax effect of share issue costs	8,649,864
Other adjustment on transfer of assets to NLP	2,850,000
	$ (878,493)

A summary of the future tax liability as at December 31, 2005 and 2004 is included below:

	2005	2004
Carrying value of property, plant and equipment in excess of available tax deductions	**$ 18,441,704**	$ 6,632,953
Loss carry forwards, net of valuation allowance of $542,005 (2004 – $316,189)	**(4,443,034)**	(1,559,114)
Share issuance costs and financing costs	**(6,988,135)**	(427,679)
	$ 7,010,535	$ 4,646,160

Synenco has federal non-capital loss carry forwards available which expire in future years as follows:

Amount	Year of expiry
$ 280,484	2007
632,829	2008
698,834	2009
847,118	2010
3,006,471	2011
9,648,842	2012
$ 15,114,578	

6. Northern Lights Partnership

A summary of the non-controlling interest at December 31, 2005 is as follows:

	2005
Non-controlling interest in NLP net assets	**$ (149,666,667)**
Tax benefit conferred to non-controlling interest	**10,259,894**
Non-controlling interest share of NLP net income	**(65,861)**
	$ (139,472,634)

On May 30, 2005, Synenco and SinoCanada Petroleum Corporation, the Canadian subsidiary of China-based Sinopec (Sinopec) entered into a series of agreements to form NLP. Under the agreements Synenco sold 14.4762% of its Project assets to Sinopec for $38,000,000. Synenco then contributed the remaining 85.5238% of its interests in the Project assets to NLP in return for a 60% interest in NLP, and Sinopec contributed its 14.4762% interest in the Project assets and $111,666,667 of cash to NLP in return for a 40% interest in NLP. Synenco is the managing partner of NLP.

Synenco recorded a reduction in the future tax liability of $2,850,000 on the transfer of its remaining 85.5238% of its interest in the Project assets to NLP. It recorded a corresponding increase to non-controlling interest.

Pursuant to the agreements, Sinopec had priority entitlement to the first $111,666,667 of Canadian Development Expenditures and Canadian Exploration Expenditures tax pools (Tax Pools) relating to the Project. For the year ended December 31, 2005, NLP spent $18,146,311 on property plant and equipment, for which Synenco did not receive any associated tax basis. As a result, Synenco recorded an increase to its future tax liability of $3,660,474. Further, on formation of NLP, Synenco recorded an increase to the future tax liability of $9,449,420 in respect of its share of taxable temporary differences of NLP Project assets.

7. Share Capital

Authorized share capital consists of unlimited common Class A voting shares and an unlimited number of preferred shares. No preferred shares have been issued.

Common Class A voting shares issued:

	2005		2004	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**20,524,815**	**$ 32,599,895**	18,927,603	$ 28,623,514
Subscription settlement	**350,000**	**1,050,000**	–	–
Subscription agreement	**43,333**	**325,000**	–	–
Exercise of options	**741,202**	**4,468,269**	914,902	1,268,880
Exercise of warrants	**3,606,428**	**25,192,500**	14,810	118,480
Private placement	**4,285,750**	**60,000,500**	667,500	4,475,000
Non-executive employee share purchase	**76,000**	**1,064,000**	–	–
Executive employment agreement	**55,300**	**774,200**	–	–
Initial public offering and over-allotment option	**18,110,000**	**316,925,000**	–	–
Flow-through share issuance	**220,000**	**5,005,000**	–	–
Reduction in respect of income tax deductions renounced to subscribers	**–**	**–**	–	(1,841,862)
Share issue costs, net of tax benefit of $8,649,864 (2004 - $21,558)	**–**	**(17,078,356)**	–	(44,117)
Balance, end of year	**48,012,828**	**$ 430,326,008**	20,524,815	$ 32,599,895

During 2005, 741,202 options were exercised at prices ranging from $0.50 to $5.00 per common share for gross proceeds of $2,759,435. Upon exercise, Synenco also recorded an increase to share capital of $1,708,834 and corresponding decrease to contributed surplus.

During 2005, 35,000 warrants were exercised at a price of $5.50 per common share for gross proceeds of $192,500.

On March 10, 2005, Synenco issued 350,000 common shares at a price of $3.00 per share pursuant to an agreement that entitled the shareholder to participate in past private placements of common shares. In return, the shareholder relinquished all future participation rights.

On April 26, 2005, Synenco closed a private placement of 43,333 common shares at a price of $7.50 per share for gross proceeds of $325,000.

On June 8, 2005, Laminar Direct Capital, L.P. and affiliates (Laminar) exercised its second warrant, as described in note 9, for $25,000,000 at an exercise price of $7.00 per share for 3,571,428 common shares.

On August 31, 2005, Synenco closed a private placement of 4,285,750 common shares at a price of $14.00 per share for gross proceeds of $60,000,500.

On August 31, 2005, Synenco issued 55,300 common shares at a price of $14.00 per share pursuant to an employment agreement with an Executive Officer for $774,200.

On September 9, 2005, Synenco issued 76,000 common shares to non-executive employees at a price of $14.00 per share pursuant to a non-executive employee purchase plan for $1,064,000.

On November 15, 2005, Synenco issued 15,750,000 common shares for Synenco's initial public offering at a price of $17.50 per share for gross proceeds of $275,625,000. On December 20, 2005, the underwriting syndicate fully exercised its over-allotment option to purchase an additional 2,360,000 common shares at a price of $17.50 per share for gross proceeds of $41,300,000.

On November 15, 2005, Synenco issued 220,000 flow-through common shares at a price of $22.75 per share for gross proceeds of $5,005,000.

8. Stock-Based Compensation

STOCK OPTIONS

At the August 17, 2005 annual general meeting, the shareholders ratified an amendment to Synenco's stock option plan such that options granted at any time may not exceed 10% of the common shares issued and outstanding, and the aggregate number of common shares issueable to any one officer, director, employee or consultant may not exceed 5% of the total number of issued and outstanding common shares.

Synenco has granted stock options outside of its stock option plan in connection with executive compensation agreements. As at December 31, 2005, there were 2,225,000 stock options outstanding outside of the stock option plan.

A summary of the status of all of Synenco's stock options as at December 31, 2005 and 2004 and changes during the years then ended are as follows:

	2005		2004	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**3,514,601**	**$ 4.23**	1,856,136	$ 1.77
Granted	**1,262,500**	**10.57**	3,200,000	5.00
Exercised	**(741,202)**	**3.72**	(914,902)	1.39
Cancelled	**(58,333)**	**4.71**	(626,633)	5.04
Outstanding, end of year	**3,977,566**	**$ 6.33**	3,514,601	$ 3.82
Exercisable, end of year	**2,656,733**	**$ 4.48**	1,944,601	$ 3.48

Options were granted by the Board of Directors (the Board) between January 2004 and August 2004 to various non-management directors and employees. On August 30, 2004, the Board reviewed the exercise price of options granted earlier in 2004 and determined that it may not have reflected the market price of the common shares on the original date of grant. Following this review, the $10.00 per common share exercise price of options granted to K. Todd Newton, Steven F. Gilliland, and non-management directors was repriced to the lesser of $10.00 per common share and the price received for a common share in any qualifying private placement, as such term was defined in the then outstanding unsecured convertible debenture of Synenco dated June 30, 2004. On September 2, 2004, options granted to James M. Donnell under his employment agreement having an exercise price of $9.00 per common share were also repriced to the lesser of $9.00 per common share and any price received for a common share in any qualifying private placement. The qualifying private placement as defined in the unsecured convertible debenture dated June 30, 2004 did not come to completion and was abandoned. On February 23, 2005, the Board again reviewed the exercise price of options granted in 2004 and passed a resolution authorizing amendments to the exercise price to $5.00 per common share and authorizing Synenco to enter into amended agreements to give effect to the resolution. The Board considered the February 2005 repricing authorization appropriate in order to ensure that the exercise price per share was based on its best available information of the market price of the common shares in 2004.

Synenco granted 400,000 stock options at $5.00 per share pursuant to a severance agreement with its former President and Chief Executive Officer. As a result of the severance agreement, all of the options granted previously to the former Executive vested immediately and the contractual life of the stock options changed to three years from the date of termination. Synenco also incurred severance costs of $1,200,000.

During the year ended December 31, 2005, Synenco granted 862,500 options pursuant to certain employment agreements at prices ranging from $10.00 to $16.89 per common share.

The following table summarizes information about all stock options outstanding and exercisable at December 31, 2005:

Range of Exercise Prices	Number Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life	Number Exercisable at December 31, 2005	Weighted Average Remaining Contractual Life
$0.00 to 3.00	615,066	1.14 years	615,066	1.14 years
5.00	2,500,000	2.97	1,966,667	2.86
10.00	405,000	4.44	75,000	4.36
14.00 to 16.89	457,500	4.87	–	–
	3,977,566	3.06 years	2,656,733	2.50 years

The weighted average stock option fair value granted during the year was $1.94 per share (2004 - $2.91 per share). The fair value of stock options was estimated on the date of grant using the Black-Scholes option pricing model. The fair value of the options are based on estimates of the expected lives of the options and other relevant assumptions, including a risk free interest rate of 3.5% (2004 – 3.3%) and an expected option life of 3.79 years (2004 – 4.20 years). A volatility of zero was used to calculate the fair value of stock options granted prior to Synenco's initial public offering on November 15, 2005. A volatility of 29% was used to calculate the fair value of stock options granted after Synenco's initial public offering.

Stock-based compensation in respect of stock options for the year ended December 31, 2005 of $1,713,673 has been expensed and $412,673 (including $138,562 future income tax effect) has been capitalized to property, plant and equipment, resulting in the addition of $1,987,784 to contributed surplus. Stock-based compensation in respect of stock options in 2004 of $6,745,668 has been expensed and $1,021,527 (including $336,573 future income tax effect) has been capitalized to property, plant and equipment, resulting in the addition of $7,430,622 to contributed surplus.

Unrecognized stock-based compensation costs that will be amortized in future periods as the stock options vest amounted to $2,092,026 as at December 31, 2005 and $1,583,616 as at December 31, 2004. Stock-based compensation is a non-cash expense.

DEFERRED SHARE UNITS

In September 2005, Synenco granted 13,332 deferred share units to non-executive Directors pursuant to a non-executive Board of Directors' compensation program. Each unit provides for a cash payment equal to one common share or, if Synenco believes that it is in its best interest, it can determine to issue shares in lieu. The units cannot be realized until such time that a Director ceases to be a Director.

The fair value of the deferred share units granted was $18.00 per share. The fair value of the deferred share units are estimated on the date of grant using the Black-Scholes option pricing model. The amounts related to the fair value of the deferred share units are based on the estimates of the expected lives of the deferred share units and other relevant assumptions. The model used the following assumptions, a risk free interest rate of 3.58%, an expected life of four years and a volatility of zero.

For the year ended December 31, 2005, $240,000 has been expensed and recorded to contributed surplus in respect of the deferred share units.

9. Secured Note

On March 21, 2005, Synenco entered into a series of credit and equity agreements with Laminar.

Pursuant to the credit agreements, Synenco issued a senior secured note with a principal amount of $25,000,000. On May 31, 2005, Synenco repaid its senior secured note in full. In respect of the note, Synenco paid interest and issuance costs of $435,865 and $1,131,165 respectively and recorded these amounts to property, plant and equipment.

Pursuant to the equity agreements, Synenco issued two warrants entitling Laminar to acquire common shares. In addition, the equity agreements provided Laminar with the rights to participate in future equity offerings and corporate governance. The participation right was limited to future private placements of equity securities (defined to include common shares, preferred shares and securities convertible into either of them) to the number of securities required to maintain Laminar's ownership percentage in Synenco at the time of the offering, if any, obtained by exercise of the first warrants, plus an additional $25,000,000 of securities. At December 31, 2005 Laminar had fully utilized such rights under the agreement. During the terms of certain agreements, if Laminar owned at least five percent of Synenco's outstanding common shares, Laminar had a right to nominate at least one Director. Pursuant to the right under the equity agreements, on June 24, 2005 Robert T. Ladd was appointed to the Board of Directors.

The first warrant entitles Laminar to acquire 1,244,882 common shares at a purchase price of $3.50 per share. While the first warrant remains unexercised, its terms provide for the exercise price and the number of common shares available to be issued to be both decreased and increased, respectively, in the event that Synenco sells equity securities at a price per common share lower than $7.00 per share. The first warrant has a seven-year term. The first warrant can be put back to Synenco upon the earlier of the occurrence of certain trigger events, or, after the fifth anniversary date of the first warrant. Under the first warrant, trigger events include, but are not limited to, certain asset sales and issuances of equity securities. Upon the occurrence of a trigger event, or, after the fifth anniversary date of the first warrant, Laminar may require Synenco to purchase up to all of the warrants outstanding at the trigger event price less the exercise price. Laminar has 30 days to notify Synenco after any trigger event otherwise, the trigger event price is no longer available. After the fifth anniversary date, Laminar may require Synenco to purchase up to all of the warrants outstanding at $10.00 per share less the exercise price.

The second warrant entitled Laminar to acquire $25,000,000 of common shares. The second warrant was exercised June 8, 2005 at $7.00 per common share for 3,571,428 common shares.

Synenco capitalized $4,444,647 for the first warrant described above (including $1,494,276 future income tax effect) resulting in an increase to contributed surplus of $2,950,371.

The fair value for the first warrant described above was $2.37 per share. The fair value of the warrants was estimated on the date of grant. The amounts related to the fair value of the warrants are based on estimates of the expected lives of the warrants and other relevant assumptions. The calculation used the following assumptions: a risk free interest rate of 4.12%, an expected life of seven years and a volatility of zero.

10. Related Party Transactions

Pursuant to a participation right as described in note 9, Synenco issued 625,000 common shares at $14.00 per share for proceeds of $8,750,000 as part of the August 31, 2005 private placement to Laminar, a company that is controlled by a Director. Pursuant to the same right, Synenco issued 930,000 common shares to Laminar at $17.50 per share for proceeds of $16,275,000 million through its initial public offering.

Synenco purchased legal services amounting to $1,559,564 and $320,832 for the years ended December 31, 2005 and 2004 respectively from a law firm in which a Director is a Partner. Pursuant to a Secondment agreement, NLP purchased $256,124 of services from Sinopec for the year ended December 31, 2005.

11. Klemke Mining Corporation

On June 13, 2003 and as amended June 19, 2003 and September 27, 2003, Synenco entered into a subscription agreement and an agreement for the exclusive right to mining contracts (the Mining Agreement) with Klemke Mining Corporation (KMC). The Mining Agreement provides KMC with exclusive rights to the earthworks and mining contracts related to the Project and Synenco's coal resource pursuant to certain minimum investments in common Class A voting shares of Synenco by KMC totalling $8,500,000. As at December 31, 2005, KMC is required to make an additional investment of $2,207,500 in order to secure the mining rights contemplated under the agreements. The terms of the mining contracts shall be industry standard, shall be negotiated in good faith, and priced on a competitive, benchmarked, fair market value basis. The subscription agreement establishes certain investment opportunities in Synenco that are available to KMC.

The following warrants remain outstanding at December 31, 2005:

	2005	
	Number of warrants	**Weighted average exercise price**
Warrants, beginning of year	633,334	**$ 4.95**
Exercised	(35,000)	**5.50**
Outstanding, end of year	598,334	**$ 4.92**

The warrants expire on the earlier of four years from the date of issuance or 30 days after the completion of a public offering, defined to mean one that substantially finances Synenco's share of the development costs of the Project. At December 31, 2005, the weighted average life of the remaining warrants was 2.04 years.

12. Contingencies

An invoice was submitted by a contractor seeking payment for services rendered in the amount of 600,000 Euros for which no supporting documentation has been provided. There is no liability recorded as at December 31, 2005 as there is no reasonable basis to make an estimate.

In August 2005, Synenco settled a dispute with a former Executive as to severance and benefits. The employee was paid $250,000, less statutory deductions, and allowed to exercise the 100,000 outstanding options held.

13. Commitments

A summary of the operating leases for office space and office equipment that Synenco has entered into is included below:

	2006	2007	2008	2009	2010	Total
Operating leases	$ 625,188	$ 537,397	$ 508,321	$ 508,321	$ 421,709	$ 2,600,936

In December 2005, SNC-Lavalin gave Synenco notice of termination of the SNC-Lavalin Master Services Agreement dated August 27, 2004. The notice of termination releases Synenco from any future obligation to purchase engineering hours or services from SNC-Lavalin and voids all other provisions of the August 27, 2004 agreement.

corporate information

Executive Officers

Michael A. Supple
Chief Executive Officer

K. Todd Newton
President and Chief Operating Officer

Steven F. Gilliland
Executive Vice President, Operations

Bernard A. (Bert) Lang
Executive Vice President,
Engineering and Design

Denise F. Hendrickson
General Counsel and Corporate Secretary

Directors

Michael A. Supple
Chairman of the Board, Synenco Energy Inc.

Allan F. Burry [1,2]
President and Chairman, Alcor Group of Companies

John F. Cordeau [3]
Chairman, Executive Committee, Bennett Jones LLP

Patrick D. Daniel [3,4]
President and Chief Executive Officer,
Enbridge Inc.

Daniel B. Klemke [1,4]
President, Klemke Mining Corporation

Robert T. Ladd [2]
President, Laminar Direct Capital L.P.

J. Sherrold Moore [1,2,3,4]
Business Consultant, former Senior Vice President,
Amoco Canada Petroleum Company Ltd.

(1) Audit & Risk Committee member
(2) Compensation Committee member
(3) Corporate Governance and Appointments Committee member
(4) Reserve Committee member

Auditors
Deloitte & Touche LLP
Calgary, Alberta

Registrar and Transfer Agent
Valiant Trust Company

Stock Exchange
Toronto Stock Exchange
Trading Symbol: SYN

Investor Enquiries
Tara Schauerte
Communications
Telephone: (403) 261-1990

Synenco Energy Inc.
Head Office
Suite 1000, 715 5th Avenue SW
Calgary, Alberta
T2P 2X6

Telephone: (403) 261-1990
Toll Free: 1-866-SYNENCO (796-3626)
Facsimile: (403) 514-8128

www.synenco.com

Synenco Energy Inc.

1000, 715 5th Avenue SW
Calgary, Alberta T2P 2X6

Tel: 403.261.1990
Fax: 403.514.8128

www.synenco.com